

ALPHA

MONTHLY REVIEW

Unit 807, Capital Centre
151 Gloucester Road, Hong Kong

Tel: +852 2539 9088

Fax: +852 2880 0005

Email: alpha.cs@alphacapital-group.com

08/22

August 2022 - Highlights

1. Hawkish Fed remarks rekindle rate hike fears as markets retrace
2. European GDP figures signal growth amidst slowing trajectory
3. China hit with droughts and Covid resurgence as key rates are cut
4. Oil retraces as EU energy crisis exacerbates with surge in natural gas
5. USD continues to soar as RMB declines to two year lows

Aug 2022 MoM Market Snapshot

DOW JONES	31,510	- 4.1%
FTSE 100	7,284	- 1.9%
HANG SENG	19,954	- 1.0%
WTI OIL	89.55	- 9.2%
GOLD	1,726	- 3.7%
EUR / USD	1.005	- 1.7%
US 10YR T-NOTE	3.194	+ 0.54

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US Markets Review

DOW JONES	31,510	- 4.1%
S&P 500	3,955	- 4.2%
NASDAQ	11,816	- 4.6%

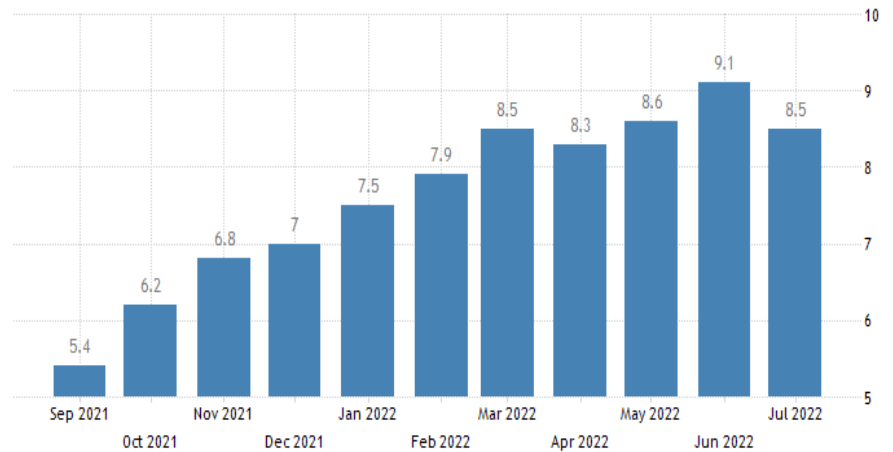
MoM Aug 22

The US stock market continued its recovery at the beginning of this month, helped by positive data as inflation finally showed signs of topping out this month, registering 8.5%, down 0.6% from 9.1% in June and below expectations of 8.7%. Although headline inflation still hovers at a near 40-year high, the possibility of having passed its peak was enough to heat up the rebound in equities and rejuvenate risk sentiment. However, the Fed's statement at the end of the month was significantly more hawkish than the market had expected, as the inversion of the US bond yield curve widened and the US dollar strengthened again, bringing back fears that aggressive interest rate hikes would eventually lead to a recession as stocks dipped into month end. The Dow Jones index fell 4.1% to close at 31,510, while the S&P500 index fell 4.2% to close at 3,955 and the NASDAQ index fell 4.6% to close at 11,816.

Non-farm payrolls rose by 528,000 in July, almost doubling the market's original estimate of 250,000 as the jobless rate fell again by 0.1% from the previous month to 3.5%, reaching its lowest level in nearly half a century and returning to the level seen in the US in early 2020 before the Covid-19 outbreak. However, the strong jobs

US inflation this month has shown preliminary signs of peaking

US Inflation Jul 2021 - Jul 2022



data represents an increased likelihood that the Fed will continue its pace of interest rate hikes going forward.

Another focus of the month was inevitably Fed Chairman Jerome Powell's speech at Jackson Hole. While investors were concerned about whether the Fed was changing course after the fall in inflation this month, Powell took a strong stance that the Fed's priority was to bring inflation down to a 2% target range. Powell also said that the Fed would target inflation "unconditionally" and that the process may require a period of below-average economic growth and weak job market conditions to achieve the target. The market reacted negatively to the hawkish comments,

sapping the rally in stocks from late July to mid-August as interest rate hikes were expected to cool, sending the three major US indices back down significantly at the end of the month.

Also noteworthy was the passing of two important pieces of legislation by the US Senate this month. The first was the "Chips and Sciences Act", which would invest \$52 billion in semiconductor research to counter China's growth in this field. The second was the Inflation Reduction Act, which will clamp down on inflation through a series of corporate tax increases, a stock buyback tax, a fund excise tax and clean energy tax offsets. The real impact of both acts on the economy will be observed in due time.

European Markets Review

FTSE 100	7,284	- 1.9%
DAX	12,834	- 4.8%
CAC 40	6,125	- 5.0%
STOXX 600	415	- 5.3%

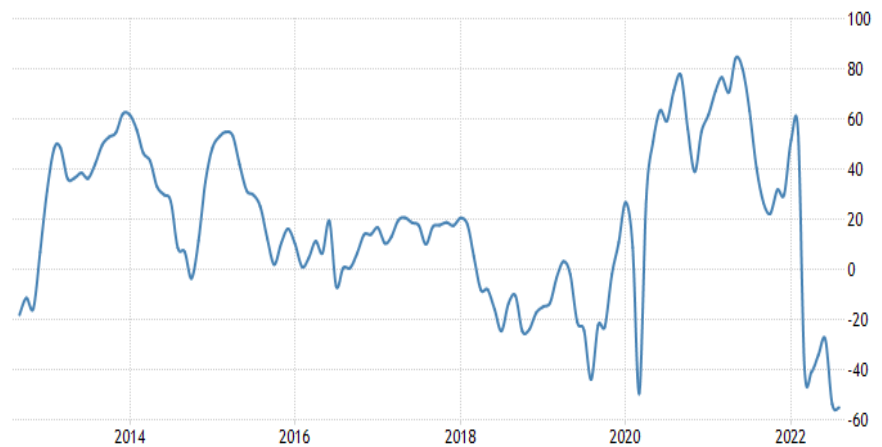
MoM Aug 22

Europe's Q2 GDP figures released earlier this month came in stronger than expected, registering annual growth of 4.0% and quarterly growth of 0.7%, both better than expected. However, inflation in the Eurozone set another record, climbing to 8.9% in July, higher than the 8.6% expected, and worsening energy prices in the region have dampened hopes for a near-term pullback in inflation. Although Q2 corporate earnings of large European companies were as good as those of the large US companies, concerns remain that the Eurozone will face contraction in Q3 and Q4. The STOXX600 index fell 5.3% this month to close at 415.

After last month's political turmoil, the Bank of England announced a 0.50% interest rate hike to 1.75% this month, the sharpest one-month hike since 1995, and warned that the UK could face two consecutive years of recession if upward inflationary pressures do not abate. In addition, GDP growth in the second quarter was 2.9%, down sharply from 8.7% on an annual basis in Q1, and down to 0.1% quarterly growth, a clear sign that the momentum of economic recovery is fading. The data also shows that consumer sentiment in the country has declined significantly amidst a cycle of high inflation and rising

Germany's ZEW economic sentiment indicator reached a decade low this month

German ZEW Economic Sentiment Indicator 2012 - 2022



interest rates, with total real retail sales falling by 1.2% in Q2 compared to Q1, the third consecutive quarter of decline. To add insult to injury, the UK's inflation rate hit 10.1% in July, the first time in four decades that it has broken into double digits, leading the market to predict that the current pace of interest rate hikes will continue. The FTSE 100 index fell 1.9% this month to end August at 7,284.

Germany released revised Q2 GDP figures this month, reporting 1.8% annual growth and 0.1% quarterly, shrugging off short-term fears of a technical recession. However, that was not enough to reverse the pessimism of its economic outlook as Germany's ZEW Economic Sentiment Index fell

to -55.3 again in August, hitting decade lows, as respondents remained bleak due to the energy crisis. The DAX index fell 4.8% to close at 12,834.

The French government announced this month that its trade deficit for the first half of the year had reached 71 billion euros, compared to 122 billion euros in the past 12 months, a record high in the last 50 years. The deficit was mainly due to the impact of the energy crisis during the year, which led to a serious imbalance in trade figures as energy imports reached €48 billion. On the other hand, France released its Q2 adjusted GDP figures, which showed annual growth of 4.2%, down from 4.8% in Q1. The CAC 40 index fell 5.0% to close at 6,125.

Asian Pacific Markets Review

HANG SENG	19,954	- 1.0%
SSE	3,202	- 1.6%
TAIEX	15,095	+ 0.6%
NIKKEI	28,091	+ 1.0%

MoM Aug 22

China experienced severe droughts and further Covid outbreaks this month, adding to the uncertainty surrounding the country's economic recovery. Retail consumption grew by only 2.7%, down from 3.1% in the previous month and well below expectations of 5%, while both manufacturing and non-manufacturing PMIs fell in the month. Faced with the possibility of a weakening economic recovery, the People's Bank of China unexpectedly lowered the reverse repo rate, medium-term lending rate and quoted interest rate in the lending market, directly reducing corporate financing costs. However, the weakness in mainland China's real estate market persisted, and the government's plan to maintain a dynamic Covid-Zero policy is still being questioned as the efficacy of stimulus remains to be seen. The Shanghai Composite Index dropped 1.6% to close at 3,202.

The Hong Kong government adopted a "3+4" quarantine policy this month to attract foreign visitors to the city but the market remains hesitant on the efficacy of the policy. Economic data released this month showed that Hong Kong's GDP fell by 1.4% in Q2, a slight improvement on the 3.9% decline in Q1, but still far from the 0.2% decline expected. However, on

a quarterly basis, GDP performance in Q2 rebounded by 0.9% from the contraction in Q1, reflecting an improving economy. The Hang Seng Index zig-zag-ed this month before closing at 19,954, down 1.0%.

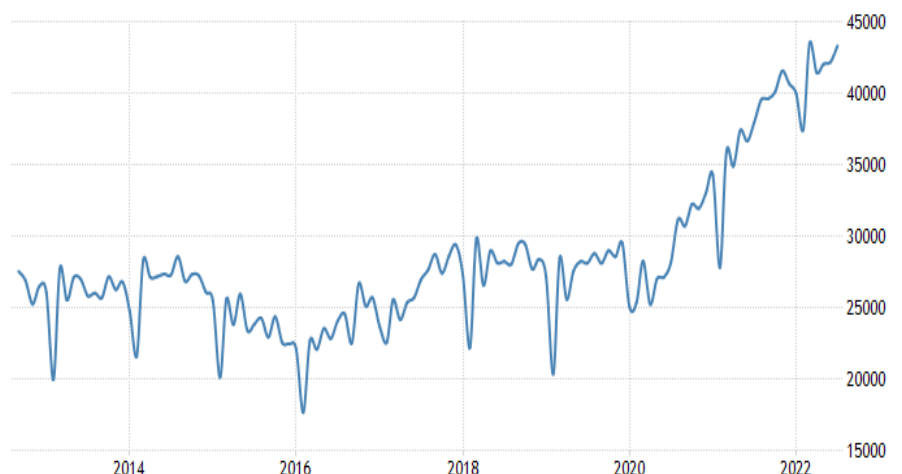
Japan's Q2 GDP figures were released this month, reporting 2.2% annual growth, a significant acceleration from the revised 0.1% increase in Q1, but still below market expectations of 2.5%. The continued depreciation of the Yen has also boosted foreign trade activity, with total exports increasing by 1.7% in July, now the third consecutive month of growth. Overall, Japan's economy has recorded three consecutive quarters of growth, but the resurgence of the Covid pandemic, slow global growth and ongoing supply chain

problems leave the outlook for economic recovery highly uncertain. The Nikkei index rose 1.0% this month to close at 28,091.

Taiwanese markets have largely returned to normal following the recent visit of US Congress representative Nancy Pelosi and economic figures indicate the economy remains on track for growth. The GDP growth of 3.0% in Q2 was largely in line with expectations, while total exports grew by a better-than-expected 4.3% annually in July. However, foreign trade orders to China fell by 22.6% annually, while those to the US grew by 6.9% annually, highlighting a contrast in trade direction. The TAIEX index rose by 0.6% this month to end August at 15,095.

Taiwanese exports have climbed steadily since the beginning of the Covid-19 pandemic

Taiwan Exports 2012 - 2022



Commodities and Forex Review

GOLD	1,726	- 3.1%
SILVER	17.88	- 12.1%
WTI OIL	89.55	- 9.2%
EUR / USD	1.005	- 1.7%
USD / JPY	138.95	+ 4.3%

MoM Aug 22

Crude oil continued its recent downward trend this month, as volatility remained relatively strong. Following the announcement by Russia oil pipeline operators were resuming supplies to some central European countries, price corrected to the downside, before OPEC+ unexpectedly announced a short term narrowing its original production increase pushing prices back up to near 95. WTI crude oil ended the month at 89.5, down 9.0%, the first time it has ended the month below 90 since the conflict between Russia and Ukraine.

Despite the downward trend in crude prices, the global energy crisis, particularly in Europe, persisted as it was hit by severe droughts, with several rivers, including the Rhine, severely depleted and drastically affecting trade shipping, forcing crude oil giant Shell to cut back on production. Low sea levels have also pushed up the cost of shipping and led to renewed upward pressure on inflation, adding to the situation in Europe, which is already facing high energy prices. On the other hand, Russian gas giant Gazprom suddenly announced that it would be carrying out technical maintenance on Nord Stream 1 from

late August to early September, during which time it would stop supplying gas to Europe, in what appears to be an experiment to disrupt gas supply to Europe altogether in the future. The European EU TTF gas price ended the month hovering at record highs again, closing at 239.9, up a whopping 25% this month.

The bullishness of the US dollar since the start of the year is clear for all to see, with it outperforming defensive assets such as gold and US bonds by a wide margin, and this month was no exception. Following Fed Chairman Powell's speech this month, it became clear that the Fed has no intention of slowing the pace of interest rate hikes in the near term and that its

determination to fight inflation has not been affected by this month's inflation drop from the highs. The US Dollar DXY index approached 110 in the middle of the month, before falling back to close at 108.7 up 2.7%.

The continued rise in the US dollar has seen the Yen, Euro and emerging market currencies fall sharply of late, but the movement of the RMB is of particular interest this month. Lower Chinese economic data and the recent interest rate cuts by the People's Bank of China has accelerated the depreciation of the RMB, which had fallen to its lowest level in almost two years by the end of the month. USD/RMB ended the month at 6.89, up 2.2% in August.

USD/RMB reached two year highs this month as the RMB continues its recent decline



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